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September 15, 2008

AGENDA ITEM 7a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Implementation Update
- II. PROGRAM:** Inflation-Linked Asset Class (ILAC)
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

BACKGROUND

The purpose of this item is to provide a monthly update to the Investment Committee on the progress of the implementation of the Inflation-Linked Asset Class (ILAC). The ILAC was approved as a pilot program in September 2007. In December 2007 ILAC was approved as a regular asset class and included in the Strategic Policy Allocation with a target of 5% and range of 0% to 5%. The Investment Committee has required that a number of steps need to be in place before proceeding with new investments in ILAC.

PROGRESS

The four investment areas of the ILAC are:

- Commodities
- Inflation-Linked Bonds (ILB)
- Infrastructure, and
- Forestland.

For each investment area, the attached chart (Attachment 1) summarizes progress on the following items:

- Investment Policies
- Staffing/Organization
- Delegations
- Incentive Plan
- Investment Implementation
- Total ILAC Investments
- Consultant Pool

V. AGRICULTURAL LAND INVESTMENT

Staff will seek Committee approval to transfer the Agricultural Land portfolio from Real Estate to ILAC in October 2008. Subsequent to this approval Staff will recommend to the Policy Subcommittee inclusion of the existing Investment Policy for Agricultural Land as part of the ILAC policies with any appropriate changes. It is anticipated that the agricultural policy will be incorporated into the Forestland component of ILAC. Agricultural investments would be considered part of the allocation to Forestland once the policy changes are approved.

VI. STRATEGIC PLAN:

This item is consistent with Strategic Plan Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions. This item is also consistent with Goal IX; achieve long-term, sustainable, risk-adjusted returns.

VII. RESULTS/COSTS:

This item is not expected to have any material cost impact other than costs associated with managing the ILAC.

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